



From: Joe Babcock [REDACTED]
Sent: Thu, 13 Feb 2020 20:37:18 +0000 (UTC)
To: Tim Sweeney [REDACTED]; David Wallerstein [REDACTED]; Ben Feder [REDACTED]; Mark Rein [REDACTED]; Jay Wilbur [REDACTED]
Cc: Randy Gelber [REDACTED]
Subject: Epic Games – 4Q19 Business Report
Attachments: Epic Games - 4Q19 Business Report.pdf,Epic Games - 4Q19 Business Report - Redacted.pdf

Epic Board,

Epic generated \$998 million of gross revenue in 4Q19 to reach \$4.22 billion in 2019. *Fortnite* welcomed 11 million new players in December 2019, the highest monthly performance since December 2018 when 14 million new players joined the *Fortnite* ecosystem. *Fortnite* finished the year with 68 million MAUs in December 2019 and maintained that player base in January 2020. The Epic Game Store finished 2019 with 30 million life-to-date PC accounts (ex-*Fortnite*) and \$233 million in gross revenue. We see 2020 as a year of investment across all core businesses and are taking the necessary steps to return *Fortnite* to growth mode towards the end of the year.

Highlights:

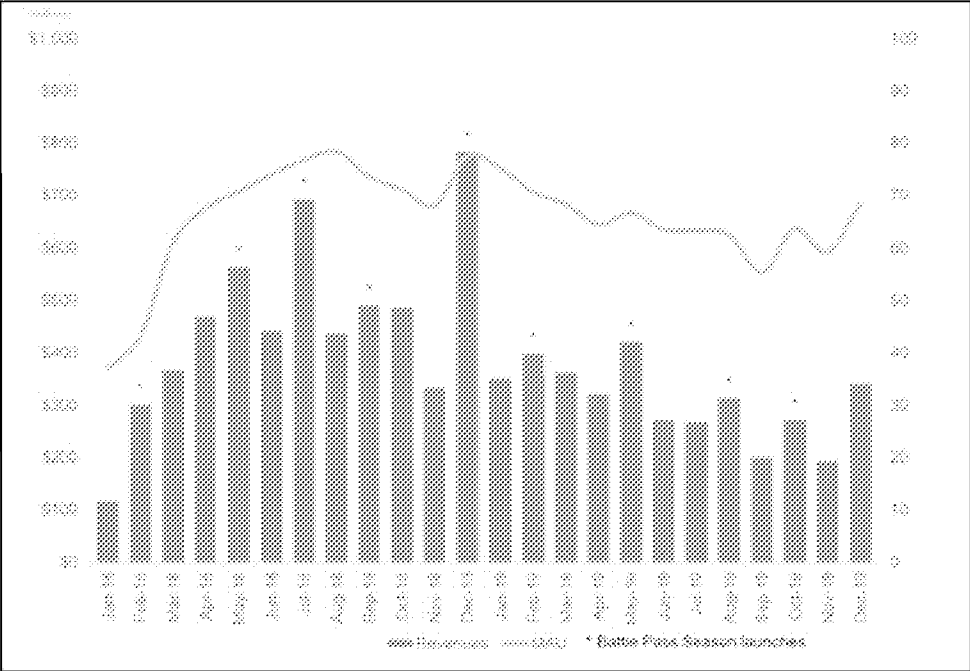
- **Total gross revenue in 4Q19 was \$998 million, down 40% YoY.** Total gross revenue in 2019 was \$4.22 billion, down 25% YoY.
- **Game revenue in 4Q19 was \$849 million, 85% of total gross revenue.** Game revenue in 2019 was \$3.81 billion, representing 90% of revenue.
 - *Fortnite* generated \$805 million in revenue during the quarter – [REDACTED]. Full year *Fortnite* revenue in 2019 was \$3.71 billion.
 - *Rocket League* generated \$41 million in gross revenue during the fourth quarter with \$20 million in December alongside the launch of the Item Shop.
- **Engine revenue in 4Q19 was \$36 million.** Engine revenue for 2019 was \$97 million.
 - Engine License & Royalty revenue in 4Q19 was \$31 million, 85% of total Engine revenue. Royalty payments accounted for \$8 million (27%), [REDACTED].
 - Engine Enterprise contributed \$3 million in 4Q19, [REDACTED]. Total 2019 enterprise revenue was \$10 million.
 - Engine Marketplace recorded revenue of \$2 million in 4Q19. Total Engine Marketplace revenue in 2019 was \$8 million.
- **Epic Game Store generated \$76 million in 4Q19.** The Epic Games Store ended December with 8 million MAUs. For the full 2019 year, Epic Game Store achieved \$233 million in gross sales. More than 60 exclusive PC titles launched on the platform by the end of 2019 and the current portfolio has recouped 35% of \$579 million in cumulative minimum guarantees, up from 21% six months ago. [REDACTED] The Epic Game Store signed agreements in 4Q19 for 11 upcoming exclusive titles with \$34 million in MGs, bringing the cumulative MG total to \$1.12 billion for more than 100 titles (approximately half of that has already been paid out).
- **EBITDAB in 4Q19 was \$198 million.** Full year 2019 EBITDAB was \$1.26 billion. Gross margin for the quarter was 37%, behind 43% for the full year primarily driven by Epic Game Store costs and higher levels of UA spend around the holiday season. Operating expenses were \$170 million for the quarter, while 2019 operating expenses were \$576 million. EBITDA in 4Q19 was \$101 million, reflecting \$96 million in bonus-related compensation (~\$20 million was M&A related). Full year 2019 EBITDA was \$732 million.
- **Cash balance was \$2.4 billion as of December 31st.** Accounts Receivable at quarter end was \$413 million. Approximately 98% of cash is in US dollars with 63% held by Epic Games, Inc.

2020 Outlook

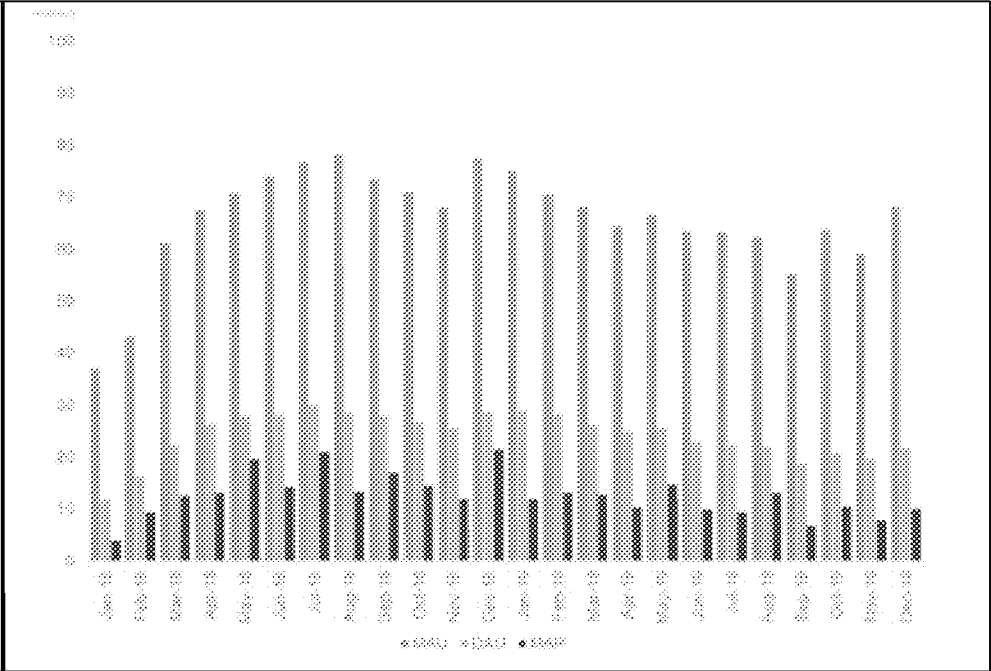
- **Fortnite** – Our key focus in 2020 is to return *Fortnite* to growth mode and evolve Battle Royale by offering new playing experiences. The release of *Chapter 2* and new features such as skill-based match-making, bots, and split-screen have enabled us to re-engage lapsed players and retain existing players, highlighted by our success in maintaining 68 million MAUs in January 2020 (equal to December 2019). We expect to do more brand integrations over the course of 2020 and evolve the game across multiple areas: new physics system; enhanced UI and storefront; an immersive, emergent, shared world; gameplay that feels real and maps to the physical world; a progression system; questing; PvE interactions, and an MMO-lite experience for the holidays.
- **Project Valkyrie** – In 2020, we are also focused on building out a suite of UE development tools within *Fortnite* to enable creators to generate new content. We expect Valkyrie to grow *Fortnite* Creative significantly from the 46 million MAUs at the end of 2019 and drive the next leg of growth for the platform.
- **Epic Game Store** – We plan to continue investing in the Epic Games Store in 2020 with fewer, bigger, better titles to minimize MG risk, along with shipping critical player and developer store features, and building out a 3rd-party publishing arm with 50/50 economics after we recoup full development and marketing expenses.
- **Engine** – Our priority in 2020 is to gain adoption in Enterprise and capture fair value with game licensing and royalties. We see the upcoming release of Unreal Engine 5 (to be announced at GDC 2020 in March) in 2021 as a major catalyst for the business.
- We expect consolidated gross revenue to decline 9% to \$3.85 billion in 2020 – Games: \$3.29 billion, Engine: \$100 million, Epic Game Store: \$401 million, and Merchandise & Other: \$60 million. We now expect EBITDA for 2020 to be \$650 million, down 11% YoY, primarily reflecting a larger employee base.
- Our **Esports** strategy continues to evolve. We will not host a World Cup event in 2020. In addition to competitive payouts, we plan to drive influencer-led event opportunities, international regional events, and scholastic programs to appeal to a wider audience. We expect Esports cost to be \$85 million in 2020, down from \$214 million in 2019.

While we continue to scale out our businesses, our hiring plans reflect a moderation in hiring and we expect an increase of 300 employees this year to reach 2,232 globally by the end of 2020.

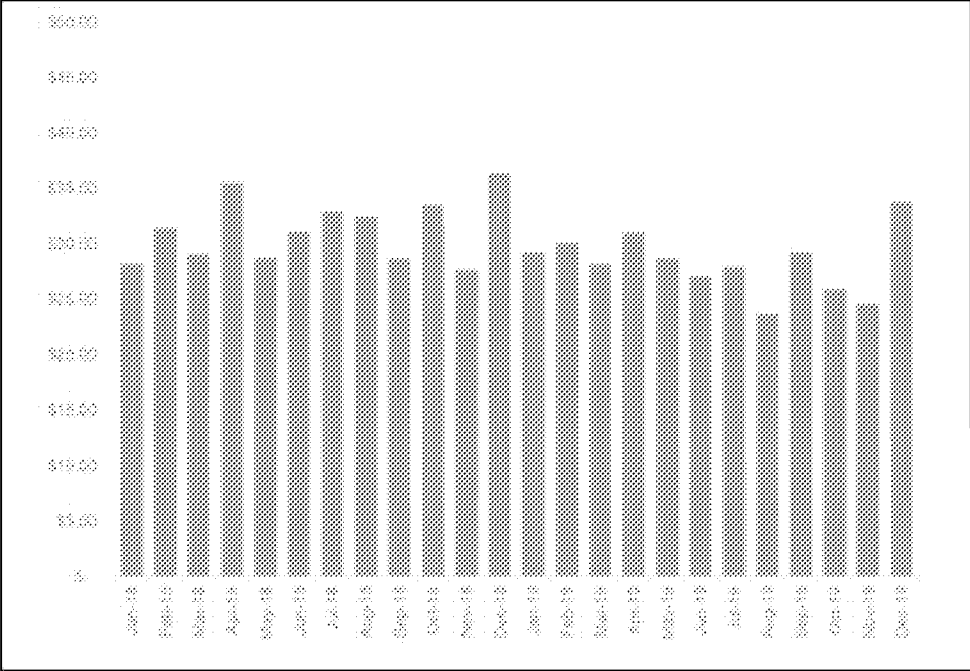
Epic Games – Key KPIs
Fortnite Revenue and MAU



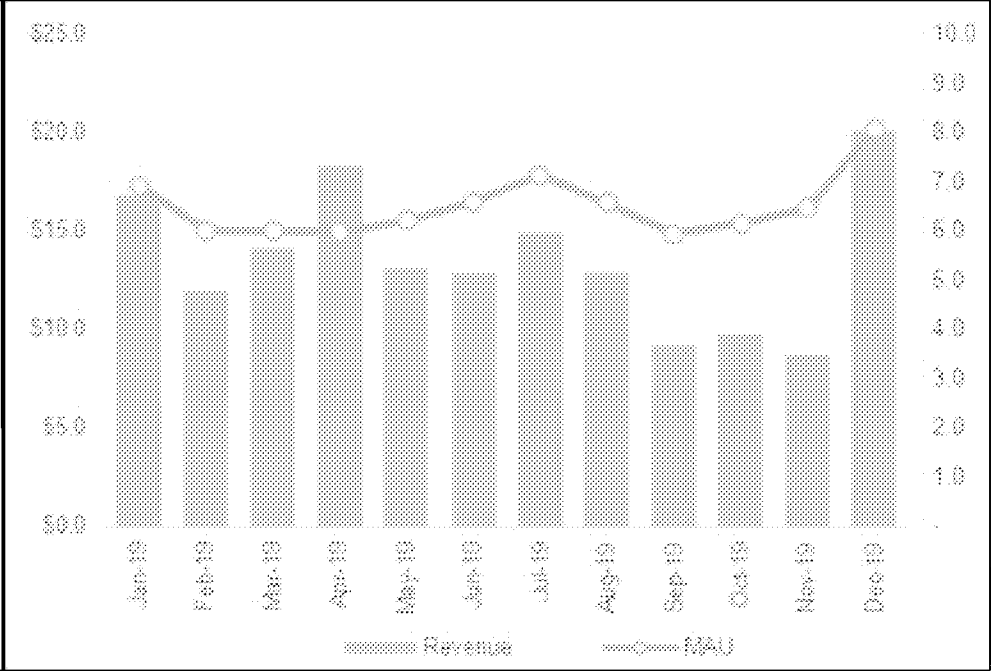
Fortnite Users – MAU, DAU, MAP



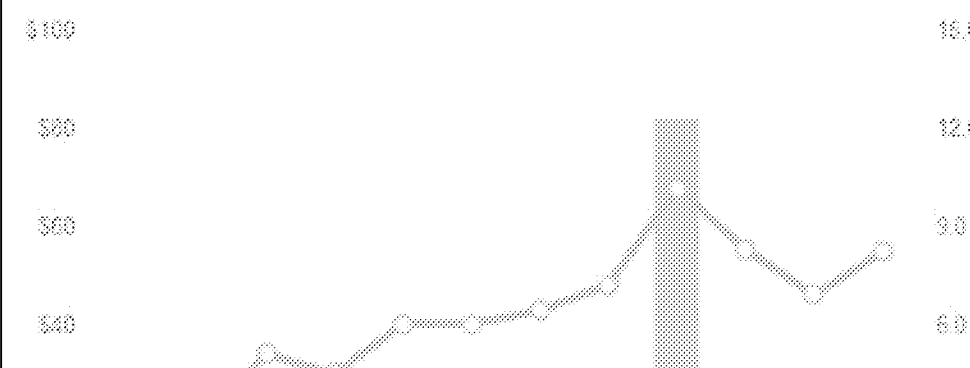
Fortnite MARPPU



Rocket League Revenue and MAU



Epic Games Store Revenue and MAU



Epic Games Store MG Summary

Cumulative MG Commitments	4Q18	1Q19	2Q19	3Q19	4Q19
Released Titles MG	\$23	\$158	\$277	\$427	\$579
Pipeline Titles MG	\$227	\$815	\$719	\$661	\$543
Total MG	\$250	\$673	\$996	\$1,088	\$1,122
MG Cash Payments	(\$28)	(\$213)	(\$374)	(\$434)	(\$559)
Outstanding MG Commitments	\$222	\$461	\$621	\$654	\$563
Quarterly MG Balance	4Q18	1Q19	2Q19	3Q19	4Q19
Beginning MG Balance		\$249	\$647	\$937	\$941
MG Signed	\$250	\$423	\$322	\$82	\$34

Epic Games – Monthly Income Statement, 4Q19A – 1Q20F

(\$ in millions)

	Actuals				Jan-20F	Feb-20F	Mar-20F	1Q20	2019A	2020F
	Oct-19A	Nov-19A	Dec-19A	4Q19						
Fortnite	\$272	\$193	\$340	\$805	\$181	\$225	\$154	\$560	\$3,709	\$3,036
Other	11	12	21	43	10	8	8	27	100	251
Game Revenue	\$283	\$205	\$361	\$849	\$191	\$233	\$163	\$587	\$3,810	\$3,287
Game License & Royalties	\$17	\$6	\$9	\$31	\$7	\$9	\$11	\$27	\$79	\$92
Enterprise	2	0	1	3	1	1	1	2	10	10
UE Asset Marketplace	1	1	1	2	0	0	1	1	8	8
Engine Revenue	\$20	\$7	\$9	\$36	\$8	\$10	\$12	\$30	\$97	\$100
Epic Game Store	\$26	\$22	\$29	\$76	\$19	\$17	\$34	\$70	\$233	\$401
Merchandise/Other	\$0	\$5	\$32	\$38	\$0	\$0	\$7	\$7	\$82	\$60
Total Net Revenue	\$329	\$238	\$431	\$998	\$218	\$260	\$215	\$694	\$4,221	\$3,848
Platform Royalties	(\$78)	(\$56)	(\$98)	(\$233)	(\$52)	(\$63)	(\$44)	(\$159)	(\$1,067)	(\$885)
Production/Hosting Costs	(29)	(24)	(27)	(80)	(24)	(23)	(22)	(69)	(290)	(281)
Player Support	(5)	(6)	(5)	(19)	(5)	(5)	(5)	(15)	(59)	(56)
SaC (Support-a-Creator)	(5)	(4)	(17)	(26)	(4)	(5)	(4)	(12)	(115)	(70)
Core UA, Marketing, IP, etc	(9)	(29)	(27)	(64)	(8)	(13)	(10)	(31)	(161)	(239)
UA	(13)	(34)	(43)	(90)	(12)	(17)	(14)	(43)	(276)	(307)
Payment Processing Fees	(3)	(2)	(2)	(7)	(2)	(2)	(2)	(6)	(28)	(34)
EGS/Marketplace Costs	(52)	(52)	(54)	(158)	(50)	(48)	(51)	(149)	(466)	(547)
Esports Costs	(2)	(6)	(38)	(46)	-	-	(15)	(15)	(214)	(85)
Cost of Sales	(\$182)	(\$180)	(\$268)	(\$630)	(\$145)	(\$159)	(\$153)	(\$457)	(\$2,390)	(\$2,295)
Gross Income	\$147	\$58	\$163	\$368	\$73	\$101	\$62	\$237	\$1,831	\$1,554
Gross Margin	44.7%	24.5%	37.8%	36.9%	33.6%	38.9%	28.8%	34.1%	43.4%	40.4%
People	(\$28)	(\$26)	(\$32)	(\$85)	(\$28)	(\$29)	(\$29)	(\$88)	(\$275)	(\$365)
Outsourcing	(12)	(13)	(13)	(38)	(13)	(13)	(13)	(39)	(110)	(152)
Events/Marketing	(5)	(4)	(5)	(14)	(4)	(3)	(10)	(18)	(59)	(53)
IT	(3)	(4)	(3)	(10)	(3)	(3)	(3)	(10)	(39)	(43)
Consulting	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(4)	(14)	(15)
Legal & Accounting	(1)	(2)	(3)	(6)	(2)	(2)	(3)	(7)	(30)	(33)
Travel & Entertainment	(1)	(2)	(2)	(4)	(2)	(2)	(2)	(5)	(18)	(21)
Facilities	(1)	(2)	(2)	(5)	(2)	(2)	(2)	(5)	(17)	(22)
Other	(1)	(1)	(3)	(4)	(2)	(2)	(2)	(5)	(15)	(18)
Total Operating Expense	(\$54)	(\$54)	(\$63)	(\$170)	(\$57)	(\$57)	(\$64)	(\$178)	(\$576)	(\$722)
EBITDAB	\$93	\$5	\$100	\$198	\$16	\$44	(\$2)	\$58	\$1,255	\$831
EBIT excl. Bonus Margin	28.4%	2.0%	23.1%	19.8%	7.4%	17.1%	(1.1%)	8.4%	29.7%	21.6%
Bonus	(\$3)	(\$8)	(\$86)	(\$96)	(\$6)	(\$44)	-	(\$50)	(\$523)	(\$181)
EBITDA	\$90	(\$3)	\$14	\$101	\$11	\$0	(\$2)	\$9	\$732	\$650
EBIT Margin	27.5%	(1.3%)	3.3%	10.2%	4.9%	0.1%	(1.1%)	1.2%	17.3%	16.9%
Head Count	1,847	1,908	1,932	1,932	1,962	1,977	1,992	1,992	1,932	2,232

Epic Games – Quarterly Income Statement, 2019A – 2020F

(% in millions)

	Actuals				1Q20F	2Q20F	3Q20F	4Q20F	2019A	2020F
	1Q19	2Q19	3Q19	4Q19						
Fortnite	\$1,109	\$1,014	\$782	\$805	\$660	\$623	\$731	\$1,121	\$3,709	\$3,036
Other	0	13	43	43	27	34	96	94	100	251
Game Revenue	\$1,109	\$1,027	\$825	\$849	\$687	\$657	\$827	\$1,215	\$3,810	\$3,287
Game License & Royalties	\$12	\$21	\$15	\$31	\$27	\$23	\$15	\$18	\$79	\$82
Enterprise	2	1	3	3	2	2	2	4	10	10
UE Asset Marketplace	1	2	2	2	1	2	2	2	8	8
Engine Revenue	\$16	\$25	\$20	\$36	\$30	\$27	\$19	\$23	\$97	\$100
Epic Game Store	\$27	\$35	\$96	\$76	\$70	\$92	\$94	\$145	\$233	\$401
Merchandise/Other	\$10	\$15	\$20	\$38	\$7	\$11	\$15	\$28	\$82	\$60
Total Net Revenue	\$1,161	\$1,102	\$960	\$998	\$694	\$787	\$956	\$1,412	\$4,221	\$3,848
Platform Royalties	(\$305)	(\$292)	(\$227)	(\$233)	(\$159)	(\$178)	(\$221)	(\$327)	(\$1,057)	(\$885)
Production/Hosting Costs	(70)	(71)	(59)	(80)	(59)	(55)	(70)	(75)	(290)	(281)
Player Support	(13)	(15)	(15)	(16)	(15)	(14)	(13)	(13)	(59)	(56)
SaC (Support-a-Creator)	(57)	(17)	(15)	(26)	(12)	(14)	(17)	(25)	(115)	(70)
Core UA, Marketing, IP, etc	(42)	(29)	(26)	(54)	(31)	(81)	(50)	(75)	(161)	(238)
UA	(99)	(46)	(41)	(90)	(43)	(95)	(68)	(101)	(276)	(307)
Payment Processing Fees	(7)	(7)	(7)	(7)	(6)	(8)	(8)	(12)	(28)	(34)
EGS/Marketplace Costs	(46)	(71)	(188)	(158)	(149)	(198)	(145)	(155)	(455)	(547)
Esports Costs	(8)	(18)	(142)	(46)	(15)	(25)	(25)	(20)	(214)	(85)
Cost of Sales	(\$549)	(\$521)	(\$690)	(\$630)	(\$457)	(\$584)	(\$550)	(\$704)	(\$2,390)	(\$2,295)
Gross Income	\$612	\$581	\$270	\$368	\$237	\$203	\$406	\$708	\$1,831	\$1,554
Gross Margin	52.7%	52.7%	28.1%	36.9%	34.1%	25.8%	42.5%	50.2%	43.4%	40.4%
People	(\$52)	(\$60)	(\$77)	(\$85)	(\$86)	(\$88)	(\$93)	(\$99)	(\$275)	(\$365)
Outsourcing	(20)	(22)	(31)	(38)	(39)	(40)	(38)	(35)	(110)	(152)
Events/Marketing	(12)	(20)	(12)	(14)	(18)	(12)	(11)	(11)	(59)	(53)
IT	(10)	(7)	(12)	(10)	(10)	(11)	(11)	(11)	(39)	(43)
Consulting	(3)	(5)	(3)	(3)	(4)	(4)	(4)	(4)	(14)	(15)
Legal & Accounting	(6)	(10)	(8)	(6)	(7)	(8)	(8)	(9)	(30)	(33)
Travel & Entertainment	(4)	(4)	(5)	(4)	(5)	(5)	(5)	(5)	(18)	(21)
Facilities	(3)	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(17)	(22)
Other	(3)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(15)	(18)
Total Operating Expense	(\$114)	(\$135)	(\$156)	(\$170)	(\$178)	(\$178)	(\$182)	(\$185)	(\$576)	(\$722)
EBITDAB	\$499	\$445	\$113	\$198	\$58	\$25	\$224	\$524	\$1,255	\$831
EBIT excl. Bonus Margin	42.9%	40.4%	11.8%	19.8%	8.4%	3.2%	23.8%	37.1%	29.7%	21.6%
Bonus	(\$180)	(\$143)	(\$103)	(\$96)	(\$50)	(\$28)	(\$38)	(\$66)	(\$523)	(\$181)
EBITDA	\$318	\$302	\$10	\$101	\$9	(\$3)	\$187	\$458	\$732	\$650
EBIT Margin	27.4%	27.5%	1.1%	10.2%	1.2%	(0.3%)	19.5%	32.4%	17.3%	16.9%
Head Count	1,312	1,666	1,817	1,932	1,992	2,052	2,142	2,232	1,932	2,232

Epic Games – Cash Flow Statement

	3 Months ended 12/31/2018	3 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2019
(in millions of US\$)				
Cash flows from operating activities				
Net income	766	138	2,843	642
Non-cash flow adjustments	5	12	20	43
Net changes in working capital	(81)	(37)	(642)	190
Net cash provided by (used in) operating activities	691	113	2,221	875
Cash flows from investing activities				
Purchase of property and equipment	(5)	(29)	(36)	(63)
Investment in affiliate	-	(8)	-	(10)
Business acquisitions, net of cash acquired	(35)	(43)	(34)	(661)
Net cash (used in) investing activities	(40)	(80)	(70)	(734)
Cash Flows from financing activities				
Proceeds from line of credit	-	-	(15)	-
Distribution of dividends	(173)	-	(173)	-
Share buyback	(1,096)	-	(1,096)	(261)
Proceeds from stock issuance	1,235	-	1,574	-
Proceeds from exercise of stock options	-	-	1	-
Net cash provided by (used in) financing activities	(34)	-	291	(261)
Exchange differences on cash and cash equivalents	(0)	1	(0)	2
Net change in cash and cash equivalents	617	34	2,442	(118)
Cash and cash equivalents (inclusive of marketable securities)				
Beginning of period	1,921	2,386	97	2,538
End of period	2,538	2,420	2,538	2,420

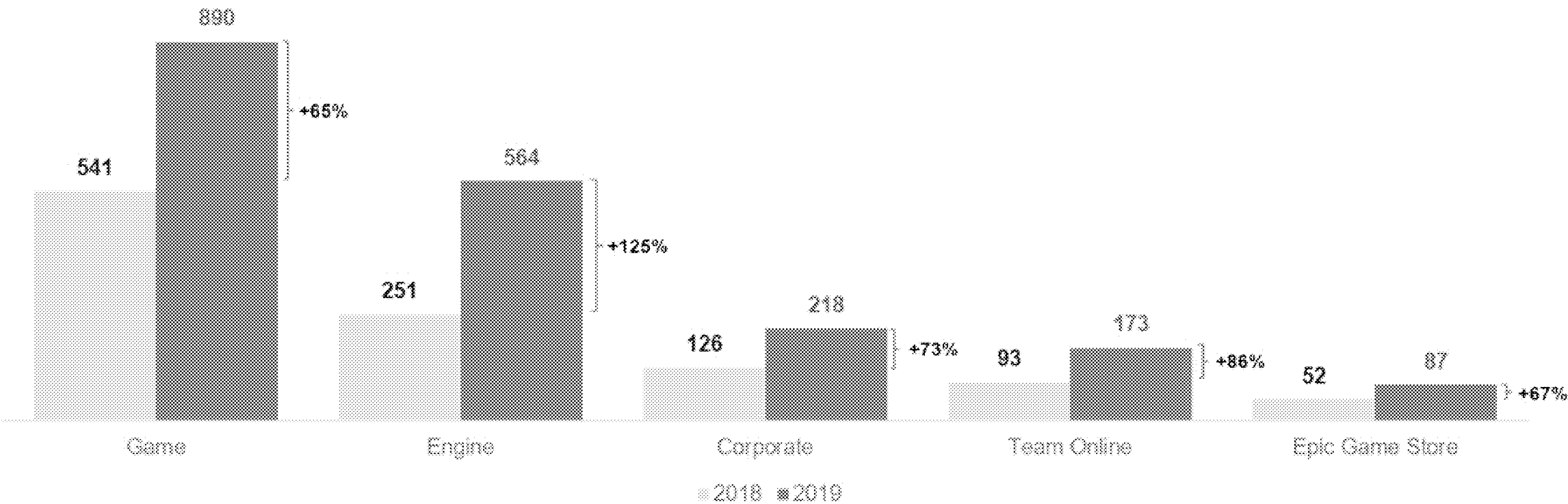
Epic Games – Balance Sheet

(\$ in millions)	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
ASSETS					
Current Assets					
Cash and cash equivalents	2,538	2,774	2,275	2,386	2,420
Accounts receivable	767	490	458	372	413
Income tax receivable	-	-	-	-	4
Prepays and other current assets	46	272	448	328	333
Total Current Assets	3,351	3,536	3,181	3,086	3,170
Non-Current Assets					
Property and equipment, net	61	74	93	109	112
Goodwill	41	148	780	767	666
Intangible assets, net	1	0	11	11	29
CSV of life insurance	3	3	3	3	3
Investments	1	1	3	3	10
Deferred tax asset	76	76	18	17	18
Other assets	2	1	4	10	15
Total Non-Current Assets	184	303	911	920	853
TOTAL ASSETS	3,536	3,839	4,093	4,006	4,023
LIABILITIES					
Current Liabilities					
Accounts payable	29	71	72	60	92
Accrued expenses	68	94	67	142	164
Income tax Payable	2	14	19	47	-
Current portion of deferred revenue	109	109	221	210	107
Total Current Liabilities	208	288	379	459	364
Long Term Liabilities					
Deferred revenue, less current	21	21	54	52	19
Loan payable, long-term	4	4	4	11	11
Other liabilities	-	-	7	-	-
Total Long Term Liabilities	24	24	65	63	30
TOTAL LIABILITIES	232	312	443	522	394
EQUITY					
Common stock	-	-	-	0	1
Additional paid-in-capital	697	647	1,816	1,679	1,834
Unrealized FX gain/loss	(1)	(0)	1	(0)	1
Retained earnings	2,608	2,880	1,833	1,805	1,794
Total Equity	3,304	3,526	3,650	3,484	3,629
TOTAL LIABILITIES AND EQUITY	3,536	3,839	4,093	4,006	4,023

Epic Games – Headcount Summary

	2018	2019	Δ	%Δ	% of '19		2018	2019	Δ	%Δ	% of '19
Game	541	890	349	+65%	46%	US	770	1309	539	+70%	68%
Engine	251	564	313	+125%	29%	Serbia	0	117	117	-	6%
Corporate	126	218	92	+73%	11%	Canada	39	115	76	+195%	6%
Team Online	93	173	80	+86%	9%	China	79	94	15	+19%	5%
Epic Game Store	52	87	35	+67%	5%	UK	70	86	16	+23%	4%
Total	1,063	1,932	869	+82%	100%	Sweden	10	50	40	+400%	3%
M&A represents 38% of 2019						Finland	29	43	14	+48%	2%
						Germany	23	41	18	+78%	2%
						Korea	23	24	1	+4%	1%
						Japan	12	20	8	+67%	1%
						France	0	15	15	-	1%
						Other	8	18	10	+125%	1%
							1,063	1,932	869	+82%	100%

2018 and 2019 Employee Summary



Epic Games – 4Q19 Business Report

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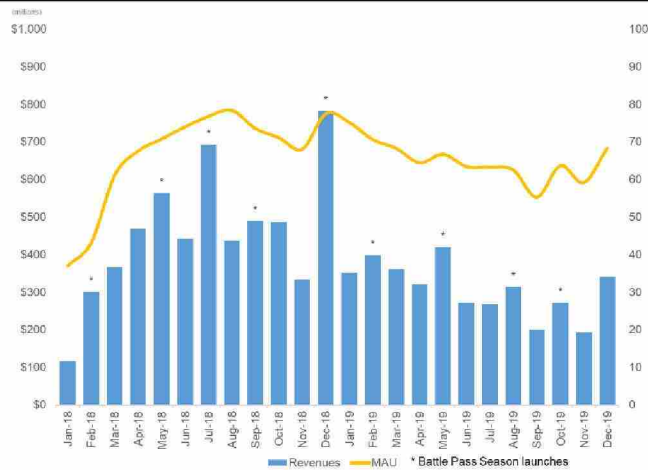
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2020 Outlook

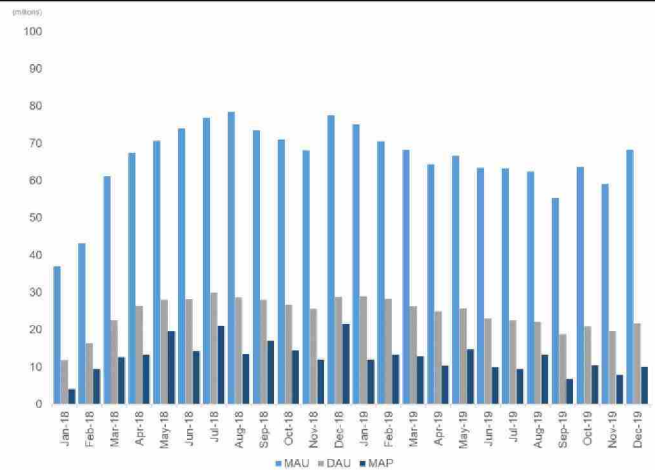
- **Fortnite** – Our key focus in 2020 is to return *Fortnite* to growth mode and evolve Battle Royale by offering new playing experiences. The release of *Chapter 2* and new features such as skill-based match-making, bots, and split-screen have enabled us to re-engage lapsed players and retain existing players, highlighted by our success in maintaining 68 million MAUs in January 2020 (equal to December 2019). We expect to do more brand integrations over the course of 2020 and evolve the game across multiple areas: new physics system; enhanced UI and storefront; an immersive, emergent, shared world; gameplay that feels real and maps to the physical world; a progression system; questing; PvE interactions, and an MMO-lite experience for the holidays.
- **Project Valkyrie** – In 2020, we are also focused on building out a suite of UE development tools within *Fortnite* to enable creators to generate new content. We expect Valkyrie to grow *Fortnite* Creative significantly from the 46 million MAUs at the end of 2019 and drive the next leg of growth for the platform.
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- **Engine** – Our priority in 2020 is to gain adoption in Enterprise and capture fair value with game licensing and royalties. We see the upcoming release of Unreal Engine 5 (to be announced at GDC 2020 in March) in 2021 as a major catalyst for the business.
- We expect consolidated gross revenue to decline 9% to \$3.85 billion in 2020 – Games: \$3.29 billion, Engine: \$100 million, Epic Game Store: \$401 million, and Merchandise & Other: \$60 million. We now expect EBITDA for 2020 to be \$650 million, down 11% YoY, primarily reflecting a larger employee base.
- Our **Esports** strategy continues to evolve. We will not host a World Cup event in 2020. In addition to competitive payouts, we plan to drive influencer-led event opportunities, international regional events, and scholastic programs to appeal to a wider audience. We expect Esports cost to be \$85 million in 2020, down from \$214 million in 2019.
- While we continue to scale out our businesses, our hiring plans reflect a moderation in hiring and we expect an increase of 300 employees this year to reach 2,232 globally by the end of 2020.

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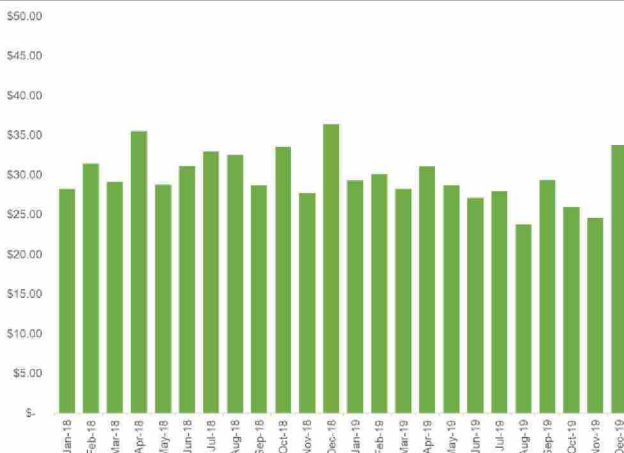
Epic Games – Key KPIs
Fortnite Revenue and MAU



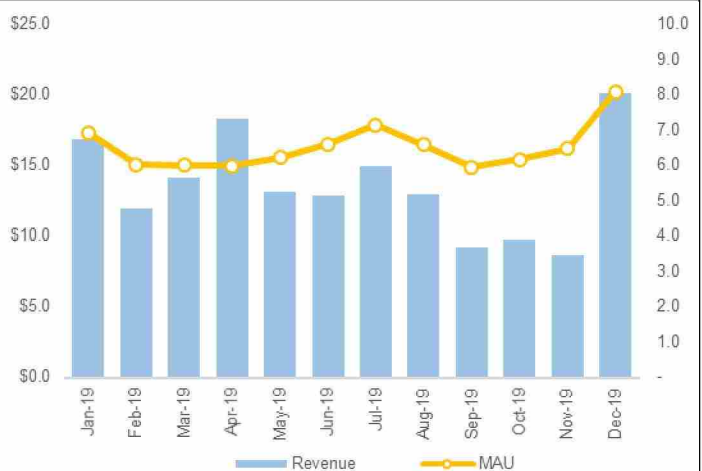
Fortnite Users – MAU, DAU, MAP



Fortnite MARPPU



Rocket League Revenue and MAU



Epic Games Store Revenue and MAU



Epic Games Store MG Summary

Cumulative MG Commitments		4Q18	1Q19	2Q19	3Q19	4Q19
Released Titles MG		\$23	\$158	\$277	\$427	\$579
Pipeline Titles MG		\$227	\$515	\$719	\$661	\$543
Total MG		\$250	\$673	\$996	\$1,088	\$1,122
MG Cash Payments		(\$28)	(\$213)	(\$374)	(\$434)	(\$559)
Outstanding MG Commitments		\$222	\$461	\$621	\$654	\$563
Quarterly MG Balance		4Q18	1Q19	2Q19	3Q19	4Q19
Beginning MG Balance			\$249	\$647	\$937	\$941
MG Signed		\$250	\$423	\$322	\$92	\$34
Recoup		(\$2)	(\$25)	(\$32)	(\$88)	(\$53)
MG Write-off						(\$9)
Ending MG Balance		\$249	\$647	\$937	\$941	\$913
LTD Recoup		4Q18	1Q19	2Q19	3Q19	4Q19
Released Titles MG		\$23	\$158	\$277	\$427	\$579
Cumulative Recoup		\$2	\$27	\$58	\$147	\$200
% Recouped		7%	17%	21%	34%	35%

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Epic Games – Monthly Income Statement, 4Q19A – 1Q20F

(\$ in millions)

	Actuals				Jan-20F	Feb-20F	Mar-20F	1Q20	2019A	2020F
	Oct-19A	Nov-19A	Dec-19A	4Q19						
Fortnite	\$272	\$193	\$340	\$805	\$181	\$225	\$154	\$560	\$3,709	\$3,036
Other	11	12	21	43	10	8	8	27	100	251
Game Revenue	\$283	\$205	\$361	\$849	\$191	\$233	\$163	\$587	\$3,810	\$3,287
Game License & Royalties	\$17	\$6	\$8	\$31	\$7	\$9	\$11	\$27	\$79	\$82
Enterprise	2	0	1	3	1	1	1	2	10	10
UE Asset Marketplace	1	1	1	2	0	0	1	1	8	8
Engine Revenue	\$20	\$7	\$9	\$36	\$8	\$10	\$12	\$30	\$97	\$100
Epic Game Store	\$26	\$22	\$29	\$76	\$19	\$17	\$34	\$70	\$233	\$401
Merchandise/Other	\$0	\$5	\$32	\$38	\$0	\$0	\$7	\$7	\$82	\$60
Total Net Revenue	\$329	\$238	\$431	\$998	\$218	\$260	\$215	\$694	\$4,221	\$3,848
Platform Royalties	(\$78)	(\$56)	(\$98)	(\$233)	(\$52)	(\$63)	(\$44)	(\$159)	(\$1,057)	(\$885)
Production/Hosting Costs	(29)	(24)	(27)	(80)	(24)	(23)	(22)	(69)	(290)	(281)
Player Support	(5)	(6)	(5)	(16)	(5)	(5)	(5)	(15)	(59)	(56)
SaC (Support-a-Creator)	(5)	(4)	(17)	(26)	(4)	(5)	(4)	(12)	(115)	(70)
Core UA, Marketing, IP, etc	(8)	(29)	(27)	(64)	(8)	(13)	(10)	(31)	(161)	(238)
UA	(13)	(34)	(43)	(90)	(12)	(17)	(14)	(43)	(276)	(307)
Payment Processing Fees	(3)	(2)	(2)	(7)	(2)	(2)	(2)	(6)	(28)	(34)
EGS/Marketplace Costs	(52)	(52)	(54)	(158)	(50)	(48)	(51)	(149)	(465)	(647)
Esports Costs	(2)	(6)	(38)	(46)	-	-	(15)	(15)	(214)	(85)
Cost of Sales	(\$182)	(\$180)	(\$268)	(\$630)	(\$145)	(\$159)	(\$153)	(\$457)	(\$2,390)	(\$2,295)
Gross Income	\$147	\$58	\$163	\$368	\$73	\$101	\$62	\$237	\$1,831	\$1,554
Gross Margin	44.7%	24.5%	37.8%	36.9%	33.6%	38.9%	28.8%	34.1%	43.4%	40.4%
People	(\$28)	(\$26)	(\$32)	(\$85)	(\$28)	(\$29)	(\$29)	(\$86)	(\$275)	(\$365)
Outsourcing	(12)	(13)	(13)	(38)	(13)	(13)	(13)	(39)	(110)	(152)
Events/Marketing	(5)	(4)	(5)	(14)	(4)	(3)	(10)	(18)	(59)	(53)
IT	(3)	(4)	(3)	(10)	(3)	(3)	(3)	(10)	(39)	(43)
Consulting	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(4)	(14)	(15)
Legal & Accounting	(1)	(2)	(3)	(6)	(2)	(2)	(3)	(7)	(30)	(33)
Travel & Entertainment	(1)	(2)	(2)	(4)	(2)	(2)	(2)	(5)	(18)	(21)
Facilities	(1)	(2)	(2)	(5)	(2)	(2)	(2)	(5)	(17)	(22)
Other	(1)	(1)	(3)	(4)	(2)	(2)	(2)	(5)	(15)	(18)
Total Operating Expense	(\$54)	(\$54)	(\$63)	(\$170)	(\$57)	(\$57)	(\$64)	(\$178)	(\$576)	(\$722)
EBITDAB	\$93	\$5	\$100	\$198	\$16	\$44	(\$2)	\$58	\$1,255	\$831
EBIT excl. Bonus Margin	28.4%	2.0%	23.1%	19.8%	7.4%	17.1%	(1.1%)	8.4%	29.7%	21.6%
Bonus	(\$3)	(\$8)	(\$86)	(\$96)	(\$6)	(\$44)	-	(\$50)	(\$523)	(\$181)
EBITDA	\$90	(\$3)	\$14	\$101	\$11	\$0	(\$2)	\$9	\$732	\$650
EBIT Margin	27.5%	(1.3%)	3.3%	10.2%	4.9%	0.1%	(1.1%)	1.2%	17.3%	16.9%
Head Count	1,847	1,908	1,932	1,932	1,962	1,977	1,992	1,992	1,932	2,232

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Epic Games – Quarterly Income Statement, 2019A – 2020F

(\$ in millions)

	Actuals				1Q20F	2Q20F	3Q20F	4Q20F	2019A	2020F
	1Q19	2Q19	3Q19	4Q19						
Fortnite	\$1,109	\$1,014	\$782	\$805	\$560	\$623	\$731	\$1,121	\$3,709	\$3,036
Other	0	13	43	43	27	34	96	94	100	251
Game Revenue	\$1,109	\$1,027	\$825	\$849	\$587	\$657	\$827	\$1,216	\$3,810	\$3,287
Game License & Royalties	\$12	\$21	\$15	\$31	\$27	\$23	\$15	\$18	\$79	\$82
Enterprise	2	1	3	3	2	2	2	4	10	10
UE Asset Marketplace	1	2	2	2	1	2	2	2	8	8
Engine Revenue	\$16	\$25	\$20	\$36	\$30	\$27	\$19	\$23	\$97	\$100
Epic Game Store	\$27	\$35	\$96	\$76	\$70	\$92	\$94	\$145	\$233	\$401
Merchandise/Other	\$10	\$15	\$20	\$38	\$7	\$11	\$15	\$28	\$82	\$60
Total Net Revenue	\$1,161	\$1,102	\$960	\$998	\$694	\$787	\$956	\$1,412	\$4,221	\$3,848
Platform Royalties	(\$305)	(\$292)	(\$227)	(\$233)	(\$159)	(\$178)	(\$221)	(\$327)	(\$1,057)	(\$885)
Production/Hosting Costs	(70)	(71)	(69)	(80)	(69)	(66)	(70)	(75)	(290)	(281)
Player Support	(13)	(15)	(15)	(16)	(15)	(14)	(13)	(13)	(59)	(56)
SaC (Support-a-Creator)	(57)	(17)	(15)	(26)	(12)	(14)	(17)	(26)	(115)	(70)
Core UA, Marketing, IP, etc	(42)	(29)	(26)	(64)	(31)	(81)	(50)	(75)	(161)	(238)
UA	(99)	(46)	(41)	(90)	(43)	(96)	(68)	(101)	(276)	(307)
Payment Processing Fees	(7)	(7)	(7)	(7)	(6)	(8)	(8)	(12)	(28)	(34)
EGS/Marketplace Costs	(48)	(71)	(188)	(158)	(149)	(198)	(145)	(156)	(465)	(647)
Esports Costs	(8)	(18)	(142)	(46)	(15)	(25)	(25)	(20)	(214)	(85)
Cost of Sales	(\$549)	(\$521)	(\$690)	(\$630)	(\$457)	(\$584)	(\$550)	(\$704)	(\$2,390)	(\$2,295)
Gross Income	\$612	\$581	\$270	\$368	\$237	\$203	\$406	\$708	\$1,831	\$1,554
Gross Margin	52.7%	52.7%	28.1%	36.9%	34.1%	25.8%	42.5%	50.2%	43.4%	40.4%
People	(\$52)	(\$60)	(\$77)	(\$85)	(\$86)	(\$88)	(\$93)	(\$99)	(\$275)	(\$365)
Outsourcing	(20)	(22)	(31)	(38)	(39)	(40)	(38)	(35)	(110)	(152)
Events/Marketing	(12)	(20)	(12)	(14)	(18)	(12)	(11)	(11)	(59)	(53)
IT	(10)	(7)	(12)	(10)	(10)	(11)	(11)	(11)	(39)	(43)
Consulting	(3)	(5)	(3)	(3)	(4)	(4)	(4)	(4)	(14)	(15)
Legal & Accounting	(6)	(10)	(8)	(6)	(7)	(8)	(8)	(9)	(30)	(33)
Travel & Entertainment	(4)	(4)	(5)	(4)	(5)	(5)	(6)	(5)	(18)	(21)
Facilities	(3)	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(17)	(22)
Other	(3)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(15)	(18)
Total Operating Expense	(\$114)	(\$135)	(\$156)	(\$170)	(\$178)	(\$178)	(\$182)	(\$185)	(\$576)	(\$722)
EBITDAB	\$499	\$445	\$113	\$198	\$58	\$25	\$224	\$524	\$1,255	\$831
EBIT excl. Bonus Margin	42.9%	40.4%	11.8%	19.8%	8.4%	3.2%	23.5%	37.1%	29.7%	21.6%
Bonus	(\$180)	(\$143)	(\$103)	(\$96)	(\$50)	(\$28)	(\$38)	(\$66)	(\$523)	(\$181)
EBITDA	\$318	\$302	\$10	\$101	\$9	(\$3)	\$187	\$458	\$732	\$650
EBIT Margin	27.4%	27.5%	1.1%	10.2%	1.2%	(0.3%)	19.5%	32.4%	17.3%	16.9%
Head Count	1,312	1,666	1,817	1,932	1,992	2,052	2,142	2,232	1,932	2,232

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Epic Games – Cash Flow Statement				
	3 Months ended 12/31/2018	3 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2019
(in millions of US\$)				
Cash flows from operating activities				
Net income	766	138	2,843	642
Non-cash flow adjustments	5	12	20	43
Net changes in working capital	(81)	(37)	(642)	190
Net cash provided by (used in) operating activities	691	113	2,221	875
Cash flows from investing activities				
Purchase of property and equipment	(5)	(29)	(36)	(63)
Investment in affiliate	-	(8)	-	(10)
Business acquisitions, net of cash acquired	(35)	(43)	(34)	(661)
Net cash (used in) investing activities	(40)	(80)	(70)	(734)
Cash Flows from financing activities				
Proceeds from line of credit	-	-	(15)	-
Distribution of dividends	(173)	-	(173)	-
Share buyback	(1,096)	-	(1,096)	(261)
Proceeds from stock issuance	1,235	-	1,574	-
Proceeds from exercise of stock options	-	-	1	-
Net cash provided by (used in) financing activities	(34)	-	291	(261)
Exchange differences on cash and cash equivalents	(0)	1	(0)	2
Net change in cash and cash equivalents	617	34	2,442	(118)
Cash and cash equivalents (inclusive of marketable securities)				
Beginning of period	1,921	2,386	97	2,538
End of period	2,538	2,420	2,538	2,420

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Epic Games – Balance Sheet					
(\$ in millions)	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
ASSETS					
Current Assets					
Cash and cash equivalents	2,538	2,774	2,275	2,386	2,420
Accounts receivable	767	490	458	372	413
Income tax receivable	-	-	-	-	4
Prepays and other current assets	46	272	448	328	333
Total Current Assets	3,351	3,536	3,181	3,086	3,170
Non-Current Assets					
Property and equipment, net	61	74	93	109	112
Goodwill	41	148	780	767	666
Intangible assets, net	1	0	11	11	29
CSV of life insurance	3	3	3	3	3
Investments	1	1	3	3	10
Deferred tax asset	76	76	18	17	18
Other assets	2	1	4	10	15
Total Non-Current Assets	184	303	911	920	853
TOTAL ASSETS	3,536	3,839	4,093	4,006	4,023
LIABILITIES					
Current Liabilities					
Accounts payable	29	71	72	60	92
Accrued expenses	68	94	67	142	164
Income tax Payable	2	14	19	47	-
Current portion of deferred revenue	109	109	221	210	107
Total Current Liabilities	208	288	379	459	364
Long Term Liabilities					
Deferred revenue, less current	21	21	54	52	19
Loan payable, long-term	4	4	4	11	11
Other liabilities	-	-	7	-	-
Total Long Term Liabilities	24	24	65	63	30
TOTAL LIABILITIES	232	312	443	522	394
EQUITY					
Common stock	-	-	-	0	1
Additional paid-in-capital	697	647	1,816	1,679	1,834
Unrealized FX gain/loss	(1)	(0)	1	(0)	1
Retained earnings	2,608	2,880	1,833	1,805	1,794
Total Equity	3,304	3,526	3,650	3,484	3,629
TOTAL LIABILITIES AND EQUITY	3,536	3,839	4,093	4,006	4,023

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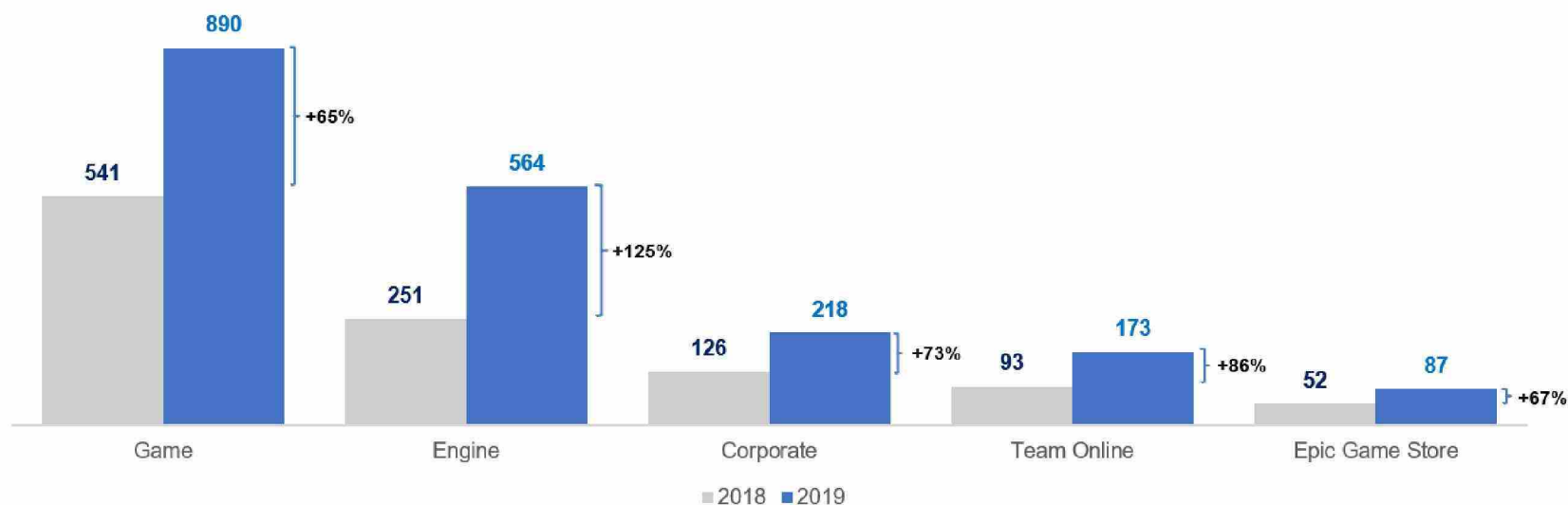
Epic Games – Headcount Summary

	2018	2019	Δ	%Δ	% of '19
Game	541	890	349	+65%	46%
Engine	251	564	313	+125%	29%
Corporate	126	218	92	+73%	11%
Team Online	93	173	80	+86%	9%
Epic Game Store	52	87	35	+67%	5%
Total	1,063	1,932	869	+82%	100%

M&A represents
36% of 2019

	2018	2019	Δ	%Δ	% of '19
US	770	1309	539	+70%	68%
Serbia	0	117	117	-	6%
Canada	39	115	76	+195%	6%
China	79	94	15	+19%	5%
UK	70	86	16	+23%	4%
Sweden	10	50	40	+400%	3%
Finland	29	43	14	+48%	2%
Germany	23	41	18	+78%	2%
Korea	23	24	1	+4%	1%
Japan	12	20	8	+67%	1%
France	0	15	15	-	1%
Other	8	18	10	+125%	1%
	1,063	1,932	869	+82%	100%

2018 and 2019 Employee Summary



Epic Games – 4Q19 Business Report

Epic Board,

Epic generated \$998 million of gross revenue in 4Q19 to reach \$4.22 billion in 2019. *Fortnite* welcomed 11 million new players in December 2019, the highest monthly performance since December 2018 when 14 million new players joined the *Fortnite* ecosystem. *Fortnite* finished the year with 68 million MAUs in December 2019 and maintained that player base in January 2020. The Epic Game Store finished 2019 with 30 million life-to-date PC accounts (ex-*Fortnite*) and \$233 million in gross revenue. We see 2020 as a year of investment across all core businesses and are taking the necessary steps to return *Fortnite* to growth mode towards the end of the year.

Highlights:

- **Total gross revenue in 4Q19 was \$998 million, down 40% YoY.** Total gross revenue in 2019 was \$4.22 billion, down 25% YoY.
- **Game revenue in 4Q19 was \$849 million, 85% of total gross revenue.** Game revenue in 2019 was \$3.81 billion, representing 90% of revenue.
 - *Fortnite* generated \$805 million in revenue during the quarter – [REDACTED]
 [REDACTED]
 Full year *Fortnite* revenue in 2019 was \$3.71 billion.
 - *Rocket League* generated \$41 million in gross revenue during the fourth quarter with \$20 million in December alongside the launch of the Item Shop.
- **Engine revenue in 4Q19 was \$36 million.** Engine revenue for 2019 was \$97 million.
 - Engine License & Royalty revenue in 4Q19 was \$31 million, 85% of total Engine revenue.
 - Engine Enterprise contributed \$3 million in 4Q19. Total 2019 enterprise revenue was \$10 million.
 - Engine Marketplace recorded revenue of \$2 million in 4Q19. Total Engine Marketplace revenue in 2019 was \$8 million.
- **Epic Game Store generated \$76 million in 4Q19.** The Epic Games Store ended December with 8 million MAUs. For the full 2019 year, Epic Game Store achieved \$233 million in gross sales.
- **EBITDAB in 4Q19 was \$198 million.** Full year 2019 EBITDAB was \$1.26 billion. Gross margin for the quarter was 37%, behind 43% for the full year primarily driven by Epic Game Store costs and higher levels of UA spend around the holiday season. Operating expenses were \$170 million for the quarter, while 2019 operating expenses were \$576 million. EBITDA in 4Q19 was \$101 million, reflecting \$96 million in bonus-related compensation (~\$20 million was M&A related). Full year 2019 EBITDA was \$732 million.
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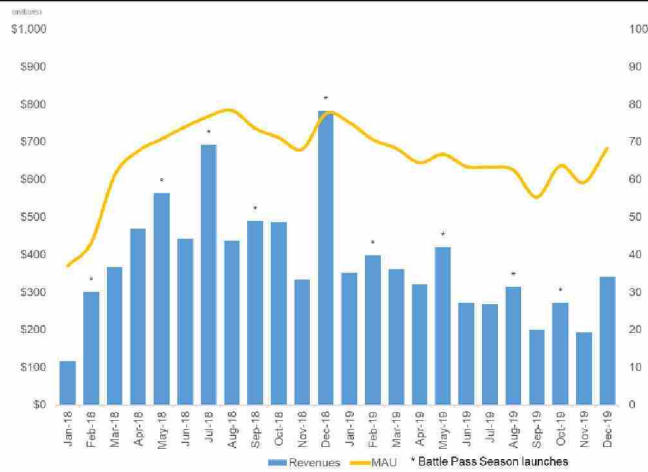
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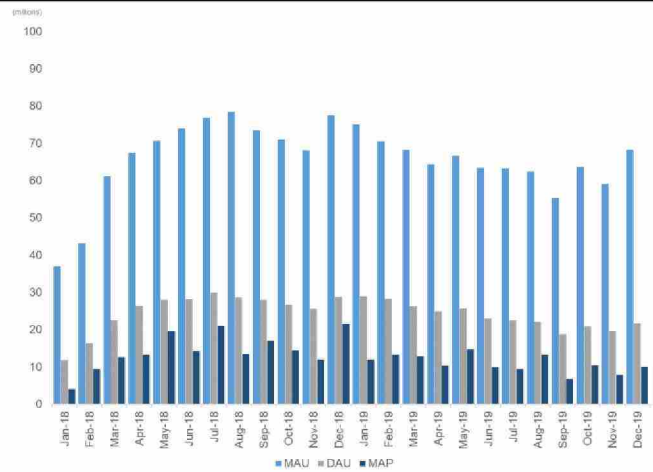
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Epic Games – Key KPIs

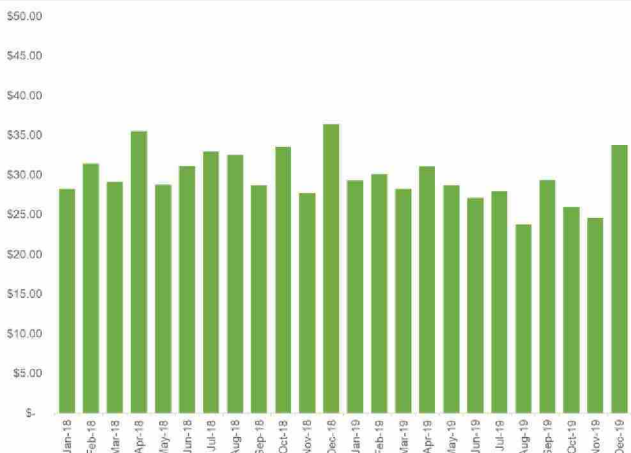
Fortnite Revenue and MAU



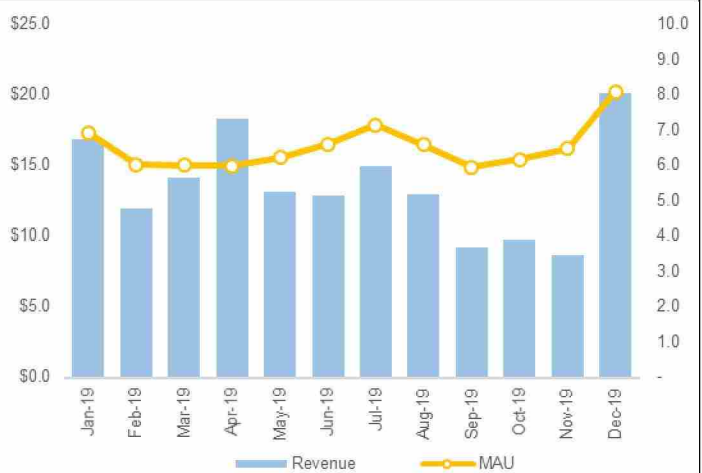
Fortnite Users – MAU, DAU, MAP



Fortnite MARPPU



Rocket League Revenue and MAU



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Epic Games – Quarterly Income Statement, 2019A – 2020F

(\$ in millions)

	Actuals				1Q20F	2Q20F	3Q20F	4Q20F	2019A	2020F
	1Q19	2Q19	3Q19	4Q19						
Fortnite	\$1,109	\$1,014	\$782	\$805	\$560	\$623	\$731	\$1,121	\$3,709	\$3,036
Other	0	13	43	43	27	34	96	94	100	251
Game Revenue	\$1,109	\$1,027	\$825	\$849	\$587	\$657	\$827	\$1,216	\$3,810	\$3,287
Game License & Royalties	\$12	\$21	\$15	\$31	\$27	\$23	\$15	\$18	\$79	\$82
Enterprise	2	1	3	3	2	2	2	4	10	10
UE Asset Marketplace	1	2	2	2	1	2	2	2	8	8
Engine Revenue	\$16	\$25	\$20	\$36	\$30	\$27	\$19	\$23	\$97	\$100
Epic Game Store	\$27	\$35	\$96	\$76	\$70	\$92	\$94	\$145	\$233	\$401
Merchandise/Other	\$10	\$15	\$20	\$38	\$7	\$11	\$15	\$28	\$82	\$60
Total Net Revenue	\$1,161	\$1,102	\$960	\$998	\$694	\$787	\$956	\$1,412	\$4,221	\$3,848
Platform Royalties	(\$305)	(\$292)	(\$227)	(\$233)	(\$159)	(\$178)	(\$221)	(\$327)	(\$1,057)	(\$885)
Production/Hosting Costs	(70)	(71)	(69)	(80)	(69)	(66)	(70)	(75)	(290)	(281)
Player Support	(13)	(15)	(15)	(16)	(15)	(14)	(13)	(13)	(59)	(56)
SaC (Support-a-Creator)	(57)	(17)	(15)	(26)	(12)	(14)	(17)	(26)	(115)	(70)
Core UA, Marketing, IP, etc	(42)	(29)	(26)	(64)	(31)	(81)	(50)	(75)	(161)	(238)
UA	(99)	(46)	(41)	(90)	(43)	(96)	(68)	(101)	(276)	(307)
Payment Processing Fees	(7)	(7)	(7)	(7)	(6)	(8)	(8)	(12)	(28)	(34)
EGS/Marketplace Costs	(48)	(71)	(188)	(158)	(149)	(198)	(145)	(156)	(465)	(647)
Esports Costs	(8)	(18)	(142)	(46)	(15)	(25)	(25)	(20)	(214)	(85)
Cost of Sales	(\$549)	(\$521)	(\$690)	(\$630)	(\$457)	(\$584)	(\$550)	(\$704)	(\$2,390)	(\$2,295)
Gross Income	\$612	\$581	\$270	\$368	\$237	\$203	\$406	\$708	\$1,831	\$1,554
<i>Gross Margin</i>	52.7%	52.7%	28.1%	36.9%	34.1%	25.8%	42.5%	50.2%	43.4%	40.4%
People	(\$52)	(\$60)	(\$77)	(\$85)	(\$86)	(\$88)	(\$93)	(\$99)	(\$275)	(\$365)
Outsourcing	(20)	(22)	(31)	(38)	(39)	(40)	(38)	(35)	(110)	(152)
Events/Marketing	(12)	(20)	(12)	(14)	(18)	(12)	(11)	(11)	(59)	(53)
IT	(10)	(7)	(12)	(10)	(10)	(11)	(11)	(11)	(39)	(43)
Consulting	(3)	(5)	(3)	(3)	(4)	(4)	(4)	(4)	(14)	(15)
Legal & Accounting	(6)	(10)	(8)	(6)	(7)	(8)	(8)	(9)	(30)	(33)
Travel & Entertainment	(4)	(4)	(5)	(4)	(5)	(5)	(6)	(5)	(18)	(21)
Facilities	(3)	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(17)	(22)
Other	(3)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(15)	(18)
Total Operating Expense	(\$114)	(\$135)	(\$156)	(\$170)	(\$178)	(\$178)	(\$182)	(\$185)	(\$576)	(\$722)
EBITDAB	\$499	\$445	\$113	\$198	\$58	\$25	\$224	\$524	\$1,255	\$831
<i>EBIT excl. Bonus Margin</i>	42.9%	40.4%	11.8%	19.8%	8.4%	3.2%	23.5%	37.1%	29.7%	21.6%
Bonus	(\$180)	(\$143)	(\$103)	(\$96)	(\$50)	(\$28)	(\$38)	(\$66)	(\$523)	(\$181)
EBITDA	\$318	\$302	\$10	\$101	\$9	(\$3)	\$187	\$458	\$732	\$650
<i>EBIT Margin</i>	27.4%	27.5%	1.1%	10.2%	1.2%	(0.3%)	19.5%	32.4%	17.3%	16.9%
Head Count	1,312	1,666	1,817	1,932	1,992	2,052	2,142	2,232	1,932	2,232

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Epic Games – Cash Flow Statement

(in millions of US\$)	3 Months ended 12/31/2018	3 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2019
Cash flows from operating activities				
Net income	766	138	2,843	642
Non-cash flow adjustments	5	12	20	43
Net changes in working capital	(81)	(37)	(642)	190
Net cash provided by (used in) operating activities	691	113	2,221	875
Cash flows from investing activities				
Purchase of property and equipment	(5)	(29)	(36)	(63)
Investment in affiliate	-	(8)	-	(10)
Business acquisitions, net of cash acquired	(35)	(43)	(34)	(661)
Net cash (used in) investing activities	(40)	(80)	(70)	(734)
Cash Flows from financing activities				
Proceeds from line of credit	-	-	(15)	-
Distribution of dividends	(173)	-	(173)	-
Share buyback	(1,096)	-	(1,096)	(261)
Proceeds from stock issuance	1,235	-	1,574	-
Proceeds from exercise of stock options	-	-	1	-
Net cash provided by (used in) financing activities	(34)	-	291	(261)
Exchange differences on cash and cash equivalents	(0)	1	(0)	2
Net change in cash and cash equivalents	617	34	2,442	(118)
Cash and cash equivalents (inclusive of marketable securities)				
Beginning of period	1,921	2,386	97	2,538
End of period	2,538	2,420	2,538	2,420

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Epic Games – Balance Sheet

(\$ in millions)	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
ASSETS					
Current Assets					
Cash and cash equivalents	2,538	2,774	2,275	2,386	2,420
Accounts receivable	767	490	458	372	413
Income tax receivable	-	-	-	-	4
Prepays and other current assets	46	272	448	328	333
Total Current Assets	3,351	3,536	3,181	3,086	3,170
Non-Current Assets					
Property and equipment, net	61	74	93	109	112
Goodwill	41	148	780	767	666
Intangible assets, net	1	0	11	11	29
CSV of life insurance	3	3	3	3	3
Investments	1	1	3	3	10
Deferred tax asset	76	76	18	17	18
Other assets	2	1	4	10	15
Total Non-Current Assets	184	303	911	920	853
TOTAL ASSETS	3,536	3,839	4,093	4,006	4,023
LIABILITIES					
Current Liabilities					
Accounts payable	29	71	72	60	92
Accrued expenses	68	94	67	142	164
Income tax Payable	2	14	19	47	-
Current portion of deferred revenue	109	109	221	210	107
Total Current Liabilities	208	288	379	459	364
Long Term Liabilities					
Deferred revenue, less current	21	21	54	52	19
Loan payable, long-term	4	4	4	11	11
Other liabilities	-	-	7	-	-
Total Long Term Liabilities	24	24	65	63	30
TOTAL LIABILITIES	232	312	443	522	394
EQUITY					
Common stock	-	-	-	0	1
Additional paid-in-capital	697	647	1,816	1,679	1,834
Unrealized FX gain/loss	(1)	(0)	1	(0)	1
Retained earnings	2,608	2,880	1,833	1,805	1,794
Total Equity	3,304	3,526	3,650	3,484	3,629
TOTAL LIABILITIES AND EQUITY	3,536	3,839	4,093	4,006	4,023